

Comments on MEGA Credit Cost Increases

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From 1995 through 2011, Michigan signed 734 MEGA deals with companies in which the state offered \$8.6 billion of refundable tax credits, according to MEDC reports. These multi-year agreements extended as many as 20 years into the future. MEGA was repealed in 2011, and no new agreements have been entered since, but companies will continue cashing in credits for years to come.

Most of these credit deals have not yet come into fruition, and most never will. Many companies awarded credits never made the investments or met the minimum job thresholds specified in their agreements. In some cases, however, when projects didn't go as planned companies have asked to amend their credit deals, and the MEDC has complied.

The MEDC has a history of overestimating the overall job impacts of this program. However, according to a 2010 performance audit, when companies do meet some or all of their job and investment targets, the cost of the credits they earn tends to be higher than originally projected.

This effect was magnified for agreements where the state offered credits for job "retention" rather than for creating new jobs. In other words, companies already in operation were given tax breaks and cash subsidies (the definition of a "refundable tax credit") for keeping existing plants open and current employees on the job.

The Auditor General's 2010 report showed that companies granted *job retention* credits tended to meet their estimates of jobs retained, with costs to the state that exceeded projected estimates by an even greater margin than was the case for *job creation* credit deals. In 2007, for example, job retention agreements produced 94 percent of their projected goals, but the credits they were granted cost the state 43 percent more than originally projected.

According to a recent Detroit News analysis, the reason the cost of these credits exceeds initial projections appears to be that their value is tied to employee compensation costs, which presumably have risen faster than expected. It's worth noting too that the more costly retention credits are concentrated in just three firms – GM, Ford and Chrysler, which account for nearly half of the entire state MEGA liability.

These higher-than-projected costs are compounded when officials amend tax credit agreements to the benefit of companies. That Detroit News analysis showed that the MEDC has increased tax credits by \$391 million since Gov. Rick Snyder took office.

The ultimate cost of MEGA remains unknown. Uncertainty surrounds the number of credits that will eventually be claimed, the cost of credits claimed, and the cost of any new or undisclosed amendments granted by the MEDC to existing credit agreements. Further compounding this uncertainty is the fact that the economy was much weaker when the largest MEGA deals were signed, meaning the cost projections made then may turn out to have been even more understated.

Based on recent reports, prohibiting state economic development officials from continuing to amend these credits agreements to the advantage of their beneficiaries would eliminate once source of uncertainty, and place some limits on the continued growth of the MEGA program's costs.